

FDIC State Profile

Winter 2005

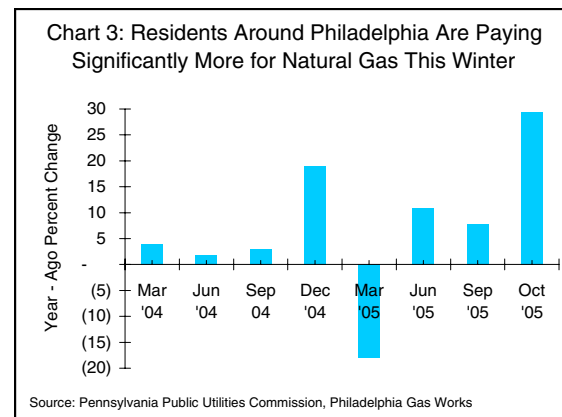
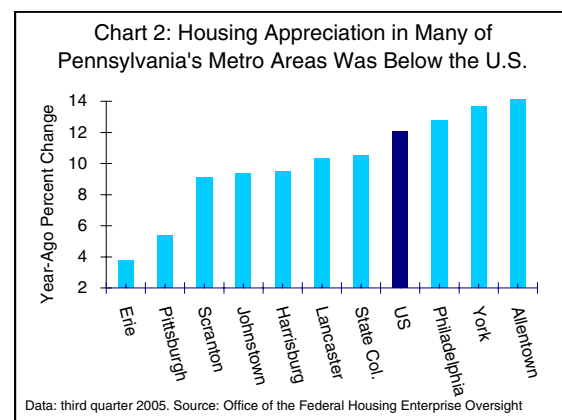
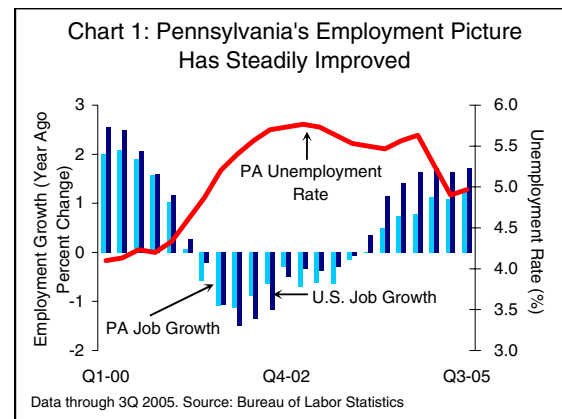
Pennsylvania

Pennsylvania's employment picture continued to improve, reaching the highest job growth rate in five years.

- Pennsylvania's third quarter 2005 job growth of 1.3 percent was the highest quarterly rate in five years, and the unemployment rate has declined from recession highs (see Chart 1).
- Commercial and residential development, particularly in the **Lehigh Valley (Allentown-Bethlehem)** and **southeastern Pennsylvania (York-Hanover, Reading)**, have stimulated an upturn in construction jobs in the state. Third quarter 2005 growth in construction jobs was triple the rate during the similar 2004 quarter.
- Pennsylvania's other leading employment sectors include business, education, health, and tourism services, which reflects increased recreational activities and growing health-care demands of baby boomers.
- **Western Pennsylvania** (primarily **Altoona** and **Pittsburgh**) continued to lag in employment growth, with the third quarter rate of manufacturing job losses more than three times the national average.

Home-price appreciation in Pennsylvania has moderated, and activity has eased in parts of the state.

- At 11.5 percent, Pennsylvania's home price appreciation slightly eased in the third quarter 2005 and ranked 21st in the nation. While price increases in eastern Pennsylvania's markets exceeded the national average, appreciation in other parts of the state were below the U.S. average (see Chart 2).¹ Areas with higher price growth have experienced stronger economic growth and in-migration from higher-priced housing markets.
- Similar to home price trends, the pace of housing activity varied across the state. Housing activity in the Lehigh Valley remained vibrant in third quarter 2005 as indicated by increased sales, reduced inventory of unsold homes, and tighter listing periods compared with a year ago. Reports suggest that housing demand also was strong in



¹Office of the Federal Housing Enterprise Oversight.

State Profile

the southeastern part of the state, including areas around Philadelphia, although the rate of sales volume has eased.²

- In Western Pennsylvania, including Pittsburgh and neighboring counties, the inventory of unsold homes and listing periods moderately increased this fall. Listing periods approximated 80 days in the third quarter, 6 percent higher than the prior year.³

Higher energy costs this winter could strain some of the state's consumers.

- Heating costs are expected to be higher this winter. Natural gas prices for the state's consumers increased between 29 and 38 percent in the fall 2005 compared with the prior year (see Chart 3).⁴
- The combination of energy costs and rising interest rates may stress some of the state's consumers. Personal bankruptcy filings increased nationally and in Pennsylvania prior to the enactment of the new bankruptcy law in October 2005. Although per capita filings increased 32 percent in the third quarter 2005, the state's per capita bankruptcy rate remained below the national average.

Statewide bank profitability declined slightly in third quarter 2005.

- Third-quarter profitability (return on assets) of insured institutions headquartered in the state declined compared with the similar 2004 period. Net interest margins were flat, while operating expenses as a percent of average assets slightly increased.⁵ The ratio of past-due loans to total loans continued to decline and was below the national average.
- A strong core funding base has allowed the state's institutions to lag increases in funding costs as interest rates climbed over the past year. Between third quarter 2004 and third quarter 2005, funding costs increased by 42 basis points compared with a 200 basis-point increase in the Federal funds rate. However, further flattening in the yield curve could lead to margin compression.

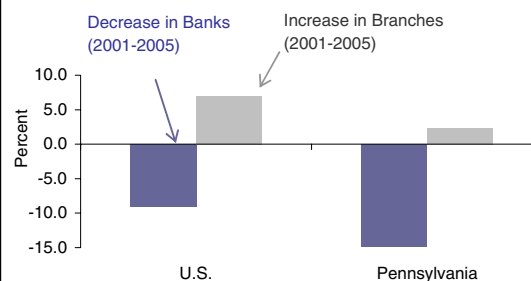
Branch growth has been modest in Pennsylvania, reflecting population patterns.

- Annual Summary of Deposit data collected by the FDIC shows bank branch growth in Pennsylvania has trailed the nation, ranking 44th between June 2004 and 2005.⁶

A number of factors may be contributing to below-average branch growth, including industry consolidation. Since 2001, the number of insured institutions headquartered in the state has declined 15 percent compared with 9 percent nationwide (see Chart 4).

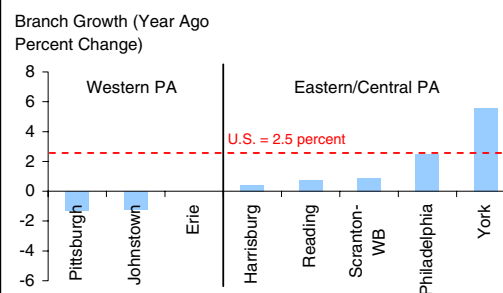
- Despite limited bank branch growth, population per branch has remained lower than the national average, the result of lagging population growth. For the past ten years, population growth in Pennsylvania averaged less than one-quarter the U.S. rate.
- Branching activity has been stronger in **eastern** and **central Pennsylvania** during the past year (see Chart 5). Areas including York and the **Philadelphia** suburbs of **Bucks** and **Chester** counties have experienced stronger branch growth, reflecting appealing demographics such as high levels of household income and population growth.
- Institutions headquartered in the state have increased the number of branches located outside the state. Since 2000, out-of-state branches operated by institutions headquartered in Pennsylvania increased by more than 30 percent to over 1,000 branches. Almost half of the branches are located in neighboring New Jersey.

Chart 4: Bank Consolidation Has been Greater in Pennsylvania and Branch Growth Has Been Limited



Note: Bank branches include branches and main offices. Source: FDIC Bank and Thrift Call Reports and FDIC/OTS Summary of Deposits.

Chart 5: Eastern and Central Pennsylvania Lead in Branch Growth



Notes: Growth rates are from June 30, 2004 to June 30, 2005. Branches include branches and main offices. Source: FDIC/OTS Summary of Deposits.

²Lehigh Valley Association of Realtors. Pennsylvania Association of Realtors.

³Western Pennsylvania Multiple Listing Service.

⁴Pennsylvania Public Utility Commission.

⁵Unless otherwise noted, banking data are median amounts.

⁶Data as of June 30, 2005. <http://www2.fdic.gov/sod/>. Bank branches include branches and main offices.

Pennsylvania at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.1%	0.7%	0.5%	-0.5%
Manufacturing (12%)	-1.7%	-1.1%	-1.5%	-2.9%	-6.2%
Other (non-manufacturing) Goods-Producing (5%)	2.5%	2.3%	1.2%	1.2%	-1.3%
Private Service-Producing (70%)	1.6%	1.6%	1.3%	1.2%	0.4%
Government (13%)	1.6%	0.1%	-0.4%	-0.1%	0.9%
Unemployment Rate (% of labor force)	5.0	4.9	5.6	5.5	5.7

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	6.3%	5.2%	5.1%	2.7%
Single-Family Home Permits	29.1%	-16.1%	-14.0%	8.3%	-2.4%
Multifamily Building Permits	-39.8%	-2.6%	86.5%	17.3%	30.8%
Existing Home Sales	5.8%	2.2%	-1.6%	13.0%	8.1%
Home Price Index	11.5%	13.6%	13.1%	10.9%	6.9%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.26	5.64	4.74	4.79	4.69

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	253	254	266	262	270
Total Assets (in millions)	381,960	348,550	327,343	330,979	297,075
New Institutions (# < 3 years)	11	10	11	9	10
Subchapter S Institutions	6	5	5	5	4

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.22	1.25	1.34	1.36	1.51
ALLL/Total Loans (median %)	1.05	1.07	1.11	1.11	1.14
ALLL/Noncurrent Loans (median multiple)	1.92	1.91	1.85	1.85	1.55
Net Loan Losses / Total Loans (median %)	0.02	0.01	0.03	0.06	0.09

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.59	9.70	9.23	9.37	9.02
Return on Assets (median %)	0.78	0.83	0.84	0.82	0.87
Pretax Return on Assets (median %)	1.08	1.11	1.14	1.09	1.17
Net Interest Margin (median %)	3.37	3.40	3.37	3.37	3.38
Yield on Earning Assets (median %)	5.64	5.52	5.29	5.27	5.55
Cost of Funding Earning Assets (median %)	2.31	2.14	1.89	1.90	2.16
Provisions to Avg. Assets (median %)	0.07	0.07	0.07	0.08	0.09
Noninterest Income to Avg. Assets (median %)	0.45	0.47	0.48	0.49	0.50
Overhead to Avg. Assets (median %)	2.57	2.55	2.51	2.52	2.51

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	63.2	62.8	60.5	61.4	59.3
Noncore Funding to Assets (median %)	20.4	19.7	19.1	19.2	18.3
Long-term Assets to Assets (median %, call filers)	33.2	33.7	34.6	35.0	35.4
Brokered Deposits (number of institutions)	57	55	42	45	43
Brokered Deposits to Assets (median % for those above)	1.6	1.2	1.6	1.3	1.2

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	44.9	44.0	45.4	46.8	47.6
Commercial Real Estate	157.6	148.9	153.4	153.4	146.9
Construction & Development	17.8	16.0	15.4	16.4	14.3
Multifamily Residential Real Estate	5.4	5.6	5.6	5.9	5.7
Nonresidential Real Estate	117.6	113.2	114.0	111.9	110.2
Residential Real Estate	290.3	288.6	291.5	292.7	296.6
Consumer	19.0	19.1	21.8	21.5	25.4
Agriculture	0.7	0.8	1.0	1.0	1.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	156	221,259	< \$250 million	131 (51.8%)
Pittsburgh, PA	62	56,557	\$250 million to \$1 billion	92 (36.4%)
Allentown-Bethlehem-Easton, PA-NJ	34	11,853	\$1 billion to \$10 billion	24 (9.5%)
Scranton--Wilkes-Barre, PA	25	9,937	> \$10 billion	6 (2.4%)
Harrisburg-Carlisle, PA	30	8,281		